Bloomberg News

U.S. Economy: Payrolls Decline for First Time in Four Years

By Bob Willis

Feb. 1 (Bloomberg) -- The U.S. unexpectedly lost jobs for the first time in more than four years, increasing the odds the economy will fall into a recession and making it likely the Federal Reserve will cut interest rates another half point next month.

Payrolls fell by 17,000 in January after an 82,000 gain in December that was larger than initially reported, the Labor Department said today in Washington. None of the 80 economists surveyed by Bloomberg News predicted the decline.

Employment is one of the indicators, along with wages, production and sales, that help determine the start of economic contractions. The decline poses a further threat to consumer spending, which accounts for 70 percent of the economy, after households were already hurt by falling home and stock values.

``It is highly unusual for payrolls to fall except in a recession,'' Christopher Low, chief economist at FTN Financial in New York, said in an interview. ``The Fed will have to keep cutting rates and we can expect a cut at the next meeting in March.''

Odds of a half-point cut in the Fed's benchmark rate by the March 18 meeting rose to 78 percent from 68 percent late yesterday, according to April futures contracts quoted on the Chicago Board of Trade.

Manufacturers, state governments and construction companies lost jobs, while the healthcare and education industries added fewer workers than the month before. The jobless rate declined to 4.9 percent in January from 5 percent, the highest in two years.

`Red Flags'

``Employment fell across a broad assortment of industries,'' said Mark Vitner, senior economist at Wachovia Corp. in Charlotte, North Carolina. ``It raises a number of red flags for the economy. There is no question economic growth has slowed to a crawl and the risks of recession are significant. That is why the Fed has cut interest rates so aggressively.''

Treasuries erased losses after the report, with yields on benchmark 10-year notes at 3.57 percent at 9:11 a.m. in New York, from as high as 3.66 percent earlier today.

The drop in payrolls in January was the first since August 2003. The median forecast was for a payrolls gain of 70,000, compared with an initially reported gain of 18,000 in December. Forecasts of an increase ranged from 5,000 to 160,000.

Fed policy makers lowered their benchmark rate by a half- point two days ago, after an emergency reduction of three- quarters of a point Jan. 22, the fastest easing of monetary policy since 1990. Chairman Ben S. Bernanke and his colleagues are next scheduled to gather March 18.

Data Revisions

Revisions for November and December brought total job gains for the two months to 142,000, versus a previously reported 133,000.

Service industries, which include banks, insurance companies, restaurants and retailers, added 34,000 workers last month after an increase of 143,000 jobs in December. Retail payrolls rose 11,200 after a decline of 12,000 in December.

Factory payrolls dropped by 28,000 after falling 20,000 a month earlier. Economists had forecast a drop of 20,000 in manufacturing employment. Builders trimmed payrolls by 27,000 in January.

Government payrolls shrank by 18,000 during January, the first decline in six months, after rising 28,000 in December.

Today's report showed the first drop in the average work week since July. Average weekly hours worked by production workers slipped to 33.7 from 33.8. That helped bring average weekly earnings down 42 cents to $598.18.

Earnings Slow

Hourly wages rose less than forecast, increasing 4 cents, or 0.2 percent, on average to $17.75 in January. Wages were up 3.7 percent from a year earlier, the same as in December. Economists had expected a 0.3 percent increase for the month and 3.9 percent for the 12-month period.

The deepest housing recession in a quarter century has dragged down home construction for the past two years, hurting demand for building materials and appliances and prompting firings at construction, mortgage-finance and other housing- related industries.

Home Depot Inc., the world's largest home-improvement retailer, yesterday said it fired 500 workers at its Atlanta headquarters, or about 10 percent of the staff there, to focus resources on its stores, a spokesman said.

``We're operating in a tough business environment, and we expect that to continue into 2008,'' said spokesman Ron DeFeo.

Seasonal Adjustments

With today's report, the Labor Department revised the payroll numbers after reviewing more complete tax data not available earlier from state unemployment insurance programs and making adjustments to its estimates of seasonal hiring patterns.

The revision subtracted 376,000 jobs from the previous estimate for the year ended December 2007, bringing total job growth for the period to 1.137 million.

Growth in the fourth quarter slowed to a 0.6 percent pace, compared with a 4.9 percent rate in the previous three months, the government said this week. Consumer spending weakened to a 2 percent pace in the last three months of 2007 from a 2.8 percent rate in the third quarter.

Today's Labor Department figures ran counter to a private report Jan. 30 that suggested hiring rebounded last month. Companies hired 130,000 additional workers in January, according to data compiled by ADP Employer Services. The figures include only private employment and don't take into account hiring by government agencies.

According to the Labor Department report, private employers added 1,000 jobs in January.

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Last Updated: February 1, 2008 10:24 EST